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SUBJECT: SECRETARY CHAO HIGHLIGHTS GLOBAL COMPETITION FOR
TALENT IN URUGUAY

Summary

11. (SBU) SUMMARY: Secretary of Labor Elaine Chao highlighted the critical need to create the right climate for growth in light of global competition for talent. She spoke about ways to manage emigration and provide retraining for employees affected by the opening economies. During a two-day visit to Uruguay, the Secretary met Minister of Labor Eduardo Bonomi, who was optimistic about Uruguay's ability to meet standards in the labor chapter of the TIFA. She also met Minister of Industry Jorge Lepra, business leaders and toured some of Uruguay's most promising companies, which are creating new and innovative jobs for the Uruguayan labor force. Her visit played prominently in the press, helping spread the Mission's message that our countries' shared commitment to democracy, respect for the rule of law, transparency and accountability were an important competitive advantage in the global economy. END SUMMARY.

Media Coverage

12. (SBU) Recognizing the importance of getting her message out to the media, Secretary Chao talked about the job opportunities of the future at her December 11 press conference. Every Montevideo newspaper gave her serious attention and even the outlets which don't like the U.S. recognized the importance of what she had to say. Deepening investment and trade ties were topics she discussed in greater detail at her media-covered American Chamber of Commerce breakfast on December 12. The result: very positive headlines for Uruguay, such as "TIFA is a good starting point," which leading dailies El Pais and La Republica printed on December 12. Ultimas Noticias, another key newspaper, echoed on Chao's call for job training assistance programs to give displaced workers the skills to thrive in the future.
Chao's Counterpart Optimistic on the TIFA Labor Chapter

13. (SBU) In a December 11 meeting with her counterpart, Minister of Labor Eduardo Bonomi was positive about his Ministry's role in leading the labor chapter discussions in the TIFA. "We meet and exceed the fundamental principles outlined in the U.S. chapter on labor," he said, and "we largely meet the standards on unionization, child labor, and collective bargaining. We should have no problem." He did acknowledge a potential problem with intellectual property rights, coming from the pharmaceutical sector.

14. (SBU) Bonomi described his ministry's actions since

President Vazquez was inaugurated in March 2005 (the time of Secretary Chao's last visit), with an emphasis on tri-partite

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salary negotiations. Uruguay has held two rounds of negotiations, comprising nearly 400 agreements - the vast majority made by consensus. The GOU has sought to extend the term of agreements beyond one year and plans a two-year term for all agreements after June 2008 in order to avoid negotiations during the electoral season in late 2009. He said the GOU's goal was to recoup 20% of the salary loss due to the 1999-2003 economic crisis - it has managed 14-15% so far. Unemployment has dropped from 14% to 8.5% and continues to decline, but Uruguay still faces problems with structural unemployment.

Lepra: The GOU is Not Excited About Mercosur

15. (SBU) Minister of Industry Jorge Lepra briefed the Secretary on the Uruguay's economic outlook, citing healthy

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indicators. Uruguay enjoyed good levels of investment, its recovery since the economic crisis was going well, and it was working hard on improving education and innovation. He highlighted the Innovation Forum planned in March 2008 and Uruguay's leading role in rolling out the one laptop per child initiative. The Frente Amplio (FA), he said, was working to continue economic growth, while maintaining social inclusion, in order to provide the best future for Uruguay. On job creation, Lepra said there was 0% unemployment in the IT sector, and that GOU needed to work harder to direct more students into this and related fields.

16. (SBU) Responding to the Secretary's questions on how Uruguay can attract investment and compete against much larger neighbors, Lepra said businesses are attracted to Uruguay as a base of operations in the region, by the low levels of corruption, and the relatively lower business

income taxes - 25% vice 35% in many neighboring countries. However, the GOU was not "excited about Mercosur," he said. While Uruguay was born between two giants, it needed to have an uncle abroad. "Unless we further cooperation with the U.S. and others, we risk becoming a subsidiary country to one of our neighbors, he explained. Secretary Chao agreed that President Bush supported further engagement. She recounted the achievement on trade during the past year, but cautioned that the USG still faces internal challenges to broadening the trade relationship. Both agreed the GOU-USG relationship was very good and was slated for even better times.

Business Paints a Less Rosy Portrait

17. (SBU) Secretary Chao met business leaders and entrepreneurs during tours of the Zonamerica free trade zone and LATU, a business incubator sponsored, in part, by the GOU. During a working lunch in her honor, business luminaries complained about the impact the FA government was having on business in Uruguay, particularly by changing the balance of power in favor of labor unions and the increased level of conflict between labor and business. They countered Bonomi's statements in para 4, saying the government had abandoned business interests within its tri-partite salary councils. These factors affected the profitability of the private sector resulting in the loss of \$300 million a year in investments, claimed Dr. Ignacio de Posadas, a former Minister of Economy from the Nationalist (Blanco) Party.

18. (SBU) Participants agreed that Uruguayans wanted change, and had voted for change in 2005, but for many change represented a return to the idealized past and the certainty it represented. They identified some erosion of support for the FA, but cited polls that still show Uruguay as a left-of-center, conservative society. Posadas distilled the electoral math in Uruguay - with 600,000 social security

recipients and at least one additional voter dependent on each one, that left 1.2 million out of 2 million voters focused on the past instead of the future. A vice-president of a leading investor in Uruguay argued that with the left in control of all branches of government, people were starting to see that the disruptive element is not the left as a whole, but the extreme coalition members, who block roads, occupy factories and stop production.

¶9. (SBU) Where change was occurring, the business leaders felt it was being driven by the private sector. Change was coming in the corporate area, not the political, said Nicolas Jodal, the founder of Uruguay's most successful software development firm - Artech. Within the corporate area he described two broad sectors, one old and one new. New companies such as firms specializing in forestry, software, call centers and back office solutions were driving change and creating new jobs.

Comment

¶10. (SBU) COMMENT: As President Bush's delegate at President Vazquez' inauguration in 2005, Secretary Chao's return to Uruguay provided an excellent opportunity to underscore the positive developments of the Vazquez government during the past 2.5 years. While acknowledging the successes we have made on the TIFA, exporting blueberries and building investment ties, the Secretary was also able to identify some of the issues the GOU will need to address as it seeks to open up to the world economy. The GOU's ability to keep educated Uruguayans in Uruguay, entice youth to seek more value-added skills, and create new and innovative jobs will determine the degree of its success in the global economy. END COMMENT.

¶11. (SBU) This cable was cleared by the Secretary's delegation.
Harding